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UNCLAS SECTION 01 OF 03 NAIROBI 005126

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E.O. 12958: N/A

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SUBJECT: KENYA EMOP RESOURCES. WHEAT SWAP WITH
KENYAN MAIZE

REF: NAIROBI 7340 AND PREVIOUS

SUMMARY

1. This is an action request. See paragraph 12.

2. To address the immediate food needs of drought victims in the southeastern and coastal lowlands, as well as among pastoralists in Northeast Kenya, while also supporting Kenya's oversupplied maize market, post recommends USAID/FFP/DCHA approval of the World Food Program (WFP) request for shipment of wheat grain to Kenya to be swapped for locally-produced maize for distribution to Kenyan drought victims.

Background of Problem

3. Emergency food assistance has been a regular feature of Kenya's Arid and Semi-Arid (ASAL) areas for the last 20 years. USAID has been major contributor to the WFP/GOK Joint Emergency Operation (EMOP) in support of drought victims. Maize grain/meal has been the primary commodity provided, supplemented by pulses, vegetable oil and corn-soy blend. At present, 1.2 million drought-affected persons are being provided relief assistance through the ongoing EMOP. Approximately, 27,000 MT of food commodities (mostly cereals) are still needed to feed the 1.2 million drought-affected people until the next harvest period, which is expected in February.

4. Early assessments of performance of current short-rains indicate poor and erratic distribution in most short-rain-dependent areas, implying the likelihood of prolonged food insecurity in the country.

5. While food deficits continue to afflict many people in marginal agricultural and pastoral areas of the North and Northeast, Western and Central Kenya received a large surplus of marketable maize during the long-rains harvest period (July/August) earlier this year. This has resulted in current low maize prices in the market. In a bid to reduce the negative impacts of low maize prices on farmers' earnings and future production, the National Cereals and Produce Board (NCPB) has procured significant maize stocks for its strategic and relief reserves. Other donors have also contributed cash towards local cereal purchases to meet EMOP requirements while avoiding local market disruption.

6. While the strategy of encouraging local maize purchases for meeting EMOP needs has worked up to now, the cereals pipeline is now virtually depleted. Furthermore, it seems clear that sufficient donor cash resources are not going to be available to meet the 27,000 MT of cereals needed for the EMOP between now and its anticipated phase-out date in February. Given that USAID/DCHA/FFP is only able to provide food in-kind, we face a dilemma. Providing additional non-domestic maize in-kind risks undermining the market (or at least being perceived as doing so). On the other hand, failing to provide additional maize will certainly lead to rupture of the pipeline and inability to meet food needs of

households still struggling to recover from the drought.

17. It is post's understanding that USAID/DCHA/FFP has allocated funds to provide a new contribution of 12,000 MT of maize to the Kenya EMOP.

Recommended Solution for the Maize Dilemma

18. USAID and WFP Nairobi offices discussed strategies to solve this dilemma. One approach discussed would be to provide wheat instead of maize. This could address the dual needs of meeting emergency food requirements while avoiding negative impacts on the maize market. Providing wheat has at least two significant disadvantages, however. One is that wheat is not suitable to meet all the consumption requirements for all of the drought-affected populations. Another is that a wheat pledge would not arrive for a few months (and could not be borrowed against in order to make use of maize stocks already in-country), too late to meet immediate pipeline needs.

19. The WFP and GOK have, therefore, proposed a better solution. They are requesting a PL 480 Title II wheat grain pledge which could be swapped with local maize purchased by the NCPB. WFP, NCPB, GOK, USAID/KENYA and REDSO/FFP have held several meetings to discuss this possibility, and have agreed on the modalities of such a swap, pending approval of USAID/DCHA/FFP. The details of how such a swap would work are as follows:

A) Timing and Location: The NCPB would release maize stocks immediately to the WFP from warehouses in appropriate locations in the country. The WFP would release PL 480 Title II wheat to the NCPB in Mombassa port at time of arrival (March/April 2006).

B) Bags and Markings: NCPB would provide maize in bags, and WFP would use stencils to mark bags as USG donations. PL 480 Title II wheat would arrive in bulk and be bagged by the WFP.

C) Specifications and Quality: USAID/FFP/DCHA would provide "hard red winter wheat grade 2 or better". The NCPB would provide maize meeting the WFP standard requirements.

D) Swap Rate: The rate of exchange of wheat for maize would be 1:1.07 that was determined based on current maize market prices and estimated future wheat prices, as well as other important considerations (i.e., wheat would arrive later, in bulk, and not be transported beyond the port). The actual amount of the exchange will also depend on the exact quantity of wheat that USAID/DCHA/FFP provides. Post assumes the donation would be approximately 12,000 MT.

E) Duty: This swap rate was calculated on the assumption that the GOK will not impose the usual 35 percent import duty on the wheat. This is standard practice for commodities donated for humanitarian purposes.

F) Written Agreement: A Memorandum of Understanding would be signed between the GOK and the WFP including agreement on all the conditions described above.

Expected Benefits

10. Benefits of this arrangement would include: (a) uninterrupted provision of food aid to meet immediate needs of drought victims and support their recovery from the drought; (b) avoidance of negative impacts on Kenyan maize market and ensuring that farmers gain fair earnings on their produce.

Bellmon Considerations

11. Post confirms that sufficient storage capacity exists in country and that a donation of USAID/DCHA/FFP wheat of up to 12,000 MT would not have a detrimental effect on local wheat production

or marketing. In normal years local wheat production accounts for only about one-third of consumption requirements, leaving an import requirement of roughly 200,000 MT on average. In addition, post confirms that this donation would not negatively impact Title II food aid monetization plans, and that the total of both donations combined would not exceed the usual marketing requirement (UMR).

Action Requested

12. Post requests positive consideration by USAID/DCHA/FFP of a requested donation of PL 480 Title II wheat of up to 12,000 MT for the Kenya drought EMOP to be swapped for locally-produced maize under the conditions detailed in paragraph 9 above.
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